Demand for land in Jamaica is going to take off - by Taic and Mandell

July 02, 2019 - Owners Developers & Managers

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Real estate developers remain fond of Queens, driven by the large parcels of desirable land and attractive pricing. As likely changes to rent regulation laws weigh on NYC’s investment sales market, the stability of owning land should become increasingly alluring to investors. This especially holds true in Jamaica, where the Affordable NY tax incentive, expansive rezoning, and omnipresent opportunity zones combine forces to make it a top-tier destination.

On June 15th, the laws governing the city's rent-stabilized and rent-controlled housing stock are up for renewal. Last year's Democratic takeover of NYS' senate significantly raised the prospect that dramatic alterations are going to be made to the current rules. Proposals being talked about for complete overhauls or elimination include: 1) vacancy decontrol 2) vacancy rent increases 3) current preferential rent structure 4) Major Capital Improvements (MCIs) and 5) Individual Apartment Improvements (IAIs).

Investors of multifamily properties have largely opted to stay on the sidelines this year, awaiting clarity on rent regulation laws. NYC recorded 75 multifamily sales in the first quarter, a 43% drop in year-over-year activity, according to Ariel Property Advisors' Multifamily Quarter In Review.

Queens, however, fared well, with the borough recording 14 transactions totalling $279.76 million in the first quarter. Compared to the first quarter of 2018, transaction volume increased 17% and dollar volume jumped 58%, indicating the execution of higher priced deals. The largest sale of the quarter was Mega Contracting Inc.'s $75 million sale of 31-57 31st St. to Hubb NYC in Astoria.

The projected changes to rent regulation have the potential to dramatically impact multifamily property values, particularly those that are dominated by rent-stabilized units. Uncertainty about what impact these regulatory changes will have on underwriting and valuations should make purchasing land in Jamaica a more reliable investment.

From January through April, the average price per buildable s/f in Queens decreased 13% year-over-year to $189 per buildable s/f. Astoria, LIC and Sunnyside have been the most active investment neighborhoods, and predictably, the price per buildable s/f runs higher in these areas, at around $240. Nevertheless, a developer looking for deals can find significantly cheaper land in Jamaica, where sites fetch $100-$124 per buildable s/f, one of the lowest in the borough.

Of course, risks are inherent in owning real estate, especially in NYC, but with the price per s/f for an existing multifamily building in Jamaica averaging around $350 and inching up, there is an economic advantage to building a new property versus buying an existing structure that is heavily regulated. With an average of $225-$275 in hard and soft costs required for new development and approximately $125 per buildable s/f for land, the weighted average cost is about the same for the two asset classes.

Development in Jamaica is even more appealing versus existing multifamily assets when the benefits of Affordable NY are added to the mix. The tax incentive provides 100% tax exemption for the construction period, and another 35 years after the completion of a project. There is currently substantial value in developing rental buildings in Jamaica because Affordable NY's affordable rent component is very close to market rent. So, instead of buying a rent-stabilized multifamily building where rents may be 30% below market, you can develop a building where only 30% of the units must be affordable, set to 130% of the AMI, which is at or very close to market rate rents in Jamaica.

The NYC Department of City Planning rezoned 368 blocks in Jamaica to allow for the creation of higher density residential buildings, as well as mixed-use properties.

Jamaica – which is predominantly a commercial and retail neighborhood – is extremely alluring for residential development due to this massive rezoning, which took place 12 years ago, but has not been fully exploited. In the aftermath of last decade's "Great Recession," cautious investors focused on historically transactional neighborhoods. As an example, since 2011 the price per buildable s/f in northwestern Queens has skyrocketed approximately 280%, from the high 80s to the mid 200s. Therefore, developers are looking for locations where their developments pencil out to rentals, especially with so much condominium product currently on the market.

Since Jamaica is dominated by blue-collar middle-class residents, it is no surprise that residential projects far outweigh commercial endeavors. Indeed, a remarkable 87 projects encompassing 6.8 million s/f are currently in the pipeline in Jamaica, according to estimates from Recity. Of the 87 ongoing projects, 57 projects are new residential developments, which will bring over 5,330 total units to the area.

Adding fuel to Jamaica's already red-hot real estate market is the fact that the neighborhood is almost entirely constituted by "Economic Opportunity Zones." The program – which aims to encourage long-term investment in underserved communities – allows the participation of less expensive capital, due to a deferred capital gains tax structure. In all of Queens, about 25% of the Opportunity Zones are in Jamaica.

Looking ahead, as land prices in historically strong NYC markets get loftier, developers will increasingly pursue the next, up-and-coming neighborhood that offers tangible upside potential. Whether it be a shift in demand due to new rent regulation laws, the Affordable New York tax incentive, or the abundance of Opportunity Zones, Jamaica is well-positioned for growth over the near-term as well as the years ahead.

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